A Case Study in Intrapreneurship: The Turnaround at Tata Refractories

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This is an account of a 40-year old company—The Tata Refractories Ltd. (TRL)—with a record of uninterrupted profitability turning sick for a variety of reasons and thereafter ‘turning around’ through a series of innovative and intrapreneurial initiatives. It should be a lesson for all organizations which either tend to get complacent because of continued success or become technologically obsolescent in an environment of fast changing business scenario.

THE LIQUIDITY CRISIS

The company faced a severe cash flow crisis during the period 1995-97. Liquidity was so poor that creditors were not paid for nine months and longer. It was also difficult to pay the employees on time though this crisis could be averted every time at the very last minute. The cash flow crisis came about principally because of the following factors:

- capital investments which failed to yield returns as projected
- poor finance management leading to diversion of working capital funds for capital expenditure and taking on too much debt
- poor competitive position in the market because of obsolete technology and high costs.

The situation got so serious that suppliers had to withhold essential input materials. This, in turn, resulted in poor compliance of customer commitments badly affecting competitiveness. All this led to a steep fall in profitability.

THE TURNAROUND PROCESS

It was clear that unless the organization went through a process of reinventing itself, it would cease to exist and, therefore, the management initiated a series of intrapreneurial measures.

Eight years down the line, the same company is experiencing a rapid growth exceeding a CAGR (compound annual growth rate) of 25 per cent with profits increasing by 400 per cent! TRL is now possibly the most respected company in the industrial sector.

How was the Turnaround Achieved?

The turnaround process had three phases: the crisis phase (1995 to 1998), the change
management phase (1999 to 2002), and the transformation phase (2003 onwards). As can be deduced from Figures 1 to 4, the situation got worse before getting better.

As mentioned earlier, the management took various initiatives on several fronts. Some of them were implemented simultaneously while others followed in sequence. This process of reinvention can be described as an excellent example of intrapreneurship in the cause of efficient business operations. Some of these measures were as follows:

**Improving and Strengthening Business Systems**

A company should be managed through strong systems and processes in such a way that subjectivity is minimized. As a first step in this endeavour, the management decided to go in for installation of an ERP system. The objective was to ensure a fully integrated information system facilitating holistic analysis of business and technical issues. Implementation of this software also involved a fundamental rethink at the existing processes and enabled many of the inefficient ones to be re-engineered.

In general, a strategy for extensive application of information technology has been implemented in order to enhance efficiency levels throughout the company. All technical and operational parameters are regularly monitored for bringing about continuous reduction in costs (Figure 5).

**Implementation of a Modernization Programme**

Since the core function in our business model is that of technology, plant and equipment need to be modernized in order to ensure state-of-the-art quality and productivity levels and remain competitive. The management, therefore, drew up an investment programme to eliminate obsolescence in different divisions of the company (Figure 6).

**Intensification of HRD Programme**

The most important differentiating factor for competitiveness is the quality of human resources. Good human resource development (HRD) programmes not only provide opportunities for knowledge and skill inputs but also bring about major attitudinal changes. Hence, the management embarked on an intense programme of human resource development for both executives and workmen. This led to an increased awareness about the issues facing the company and facilitated the development of a shared vision for the entire workforce.

The HRD programmes essentially focused on the development of necessary skill sets for operation and maintenance of different equipment and on enhancing managerial attributes. In fact, the turnaround programme could not have been a success at all but for the effectiveness of the HRD programmes. Figure 7 indicates the training scenario.
Initiatives for Smart Sizing

One legacy of the company’s age has been inefficient manpower planning primarily in terms of qualifications and professional background and, secondly, in terms of numbers. Various re-engineering exercises introduced through ERP implementation, modernization, and HRD programmes highlighted the need for smart sizing. This was essentially an exercise in locating the optimum number of staff with proper professional background in different positions.

The attempt at smart sizing was not meant to reduce the wage bills since attraction and retention of talented individuals necessitates substantial enhancement of compensation levels. As shown in Figure 8, while there has been a significant reduction in the overall numbers of employment, the per capita wage bill has also shown an increase for reasons mentioned above.

However, there is a substantial increase in the efficiency of business processes because of the involvement of a smaller number of people than what was prevalent in the past. Overall, the smart sizing programme has enabled the company to be a more efficient performer in the marketplace.

Recapitalizing the Company

The management carried out a detailed study of various financial ratios of the company and concluded that its capital structure was inadequate to meet not only the growth requirements but also the current business challenges. The company was fairly over-leveraged and under-capitalized particularly at a time when interest rates were substantially higher than the current levels.

While operating a company with high debt-equity ratios may seem like an advantage to the shareholders, it is at best only a short-term benefit. In a business subject to the boom and recession cycle, excessive leveraging can adversely affect liquidity destabilizing the operations in the process. For such businesses, it is necessary that the debt-equity ratio be as low as possible and definitely lower than 1.0 (Figure 9).

Recapitalizing, however, is a complex measure. A company needs to make a very persuasive case in order to attract additional funds from the investors, particularly at a time when it has shown signs of sickness. The investors need to be assured of the growth prospects of the company. The growth strategy that Tata Refractories outlined provided a cogent case for recapitalization. This process has now been completed and currently the debt-equity ratios are even lower than 0.5. As a result, even during a future recessionary period, the company’s cash flow situation would be satisfactory.
OUTLINING AN AGGRESSIVE GROWTH STRATEGY

Business growth is an invigorating tonic for all stakeholders of a company. Developing and executing growth plans is a process which energizes everyone working for the company, from individual board members to the junior-most employee. Tata Refractories had drawn up an ambitious growth plan involving, inter alia, (a) modernization of facilities in order to achieve state-of-the-art operations; (b) business expansion for products with potential demand-supply gaps; and (c) setting up new units through strategic analysis. One consideration was to locate new facilities such that freight costs are minimized when the product is delivered to the customer.

The growth strategy also envisaged acquisition of existing business units in the domestic market as well as abroad. Obviously, one has to acquire an existing business only when it is possible to make continuous value addition to the acquired one. While a number of opportunities have been explored in this connection, the process has so far not concluded satisfactorily.

The fourth component of the growth strategy is diversification into new business ventures. A true diversification has to be differentiated from vertical or side integration models. Different businesses of a truly diversified group need to operate on different business cycles so that the whole entity would experience much better stability. Leveraging on the core strengths in functions such as technology management, HR management, finance management, and strategy management, the company had developed proposals for diversification and would soon be entering new business fields. Figure 10 traces the company’s growth strategy.

Business Excellence as a Holistic Initiative

The company fortunately belongs to the premier business group of India and was, therefore, able to participate in the in-house business excellence programme aptly termed TBEM (Tata Business Excellence Model). This is a holistic initiative encompassing all aspects of a business, starting from vision and strategy to operational issues, customer satisfaction issues, HR issues, etc. It provides a very strong structure or framework for
ensuring business excellence in the day-to-day work of every manager working in an organization. Participation in this programme made the task of achieving the turnaround and thereafter excellence much smoother and far more guaranteed than what would otherwise have been the case. It also ensured alignment of all processes as well as people belonging to different disciplines in the company towards this single and powerful goal.

At present, the company has crossed the half way mark in this journey (Figure 11). As it moves forward, the challenges are more demanding; yet, there is enough spirit within the organization that these can be overcome. Training a large number of executives in this programme has helped in energizing the entire organization. Overall, the business excellence programme is expected to not only take the company forward with respect to excellent results for the short-term but also to ensure sustainable success of the business model for a very long time to come.

CONCLUSIONS

The company has so far passed through a series of critical time zones where the world in general and the business atmosphere in particular have undergone major transformation. Given the adage that “unless the rate and amount of change within an organization exceed those occurring outside, a company is doomed,” it was necessary to introduce a large number of changes in all facets of its operations. In the process, the management had involved the stakeholders and employees and it was fortunate that the employees were very receptive to change management even on those occasions when it affected them adversely.

The management applied different techniques of implementing the changes which resulted in reinventing and re-engineering systems and processes involved in day-to-day operations of the business. There were several changes with respect to human resources. It introduced major technological changes as well in order to ensure state-of-the-art products and services.

Globalization also meant that various global players would enter the Indian scene and provide much tougher competitive ambience for the company. This had to be faced with continuous R&D inputs in such a way that the company’s products fulfilled the ever increasing requirements of customers.

To conclude, reinvention and intrapreneurship would remain an on-going activity considering the continuing challenges a company faces in the competitive, globalized scenario.

Figure 11: TRL's TBEM Journey

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